

## PROJECT OVERSIGHT REPORT

Insurance System Replacement Project (ISRP)  
Health Care Authority

Report as of Date:  
June 2004

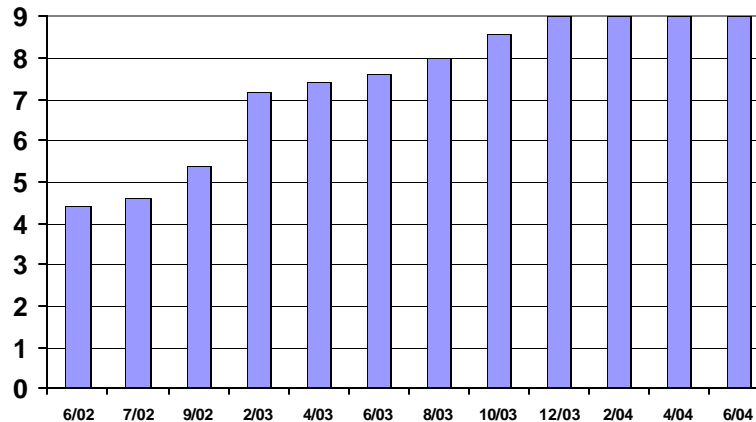
Project Director: Christine Spaulding  
Executive Sponsor: Pete Cutler

MOSTD Staff: Tom Parma

Severity/Risk Rating: High (high severity, high risk)

Oversight: Level 3 – ISB

### Overall Project Risk Assessment



**Staff Recommendations:** ISB oversight staff recommends that in addition to developing their post-implementation review, HCA revise its original justification and cost benefit analysis for a new system in preparation for submitting a new decision package. The cost to continue running as the sole user of DOP's PAY1 system (payroll) may prove prohibitive.

#### Status:

Schedule: HCA and Healthaxis terminated their contract effective May 27, 2004. This project has been cancelled.

Milestone or Phase	Planned Start	Actual Start	Planned Finish	Actual Finish	Variance vs. Original
Phase I – Requirements & system architecture definitions	7/1/2002	7/1/2002	6/30/2003	Did not finish	
Phase II – Detailed design, data migration, development, test	10/1/2002	11/1/2002	3/1/2003	Did not finish	
Phase III – Acceptance testing, training, implementation	3/1/2003	Did not start	6/30/2003	Did not finish	

**Budget/Cost:** The original budget for this project was \$3.64 million. HCA spent \$930,000 of that and received \$300,000 from Healthaxis as a settlement. However, with the cancellation of this project HCA must continue to pay the costs for running their legacy systems. The remaining funds will be used to cover these costs.

**Issues/Risks:**

There are no issues associated with the ISRP project. However, there is an ongoing risk of running on the legacy PAY1 system at DOP if HCA does not receive new funding for this project in the 2005-2007 Biennium.

**Status:**

As of May 27, 2004, HCA and Healthaxis officially terminated their contractual agreement. Healthaxis has paid \$300,000 to HCA.

The FY04 supplemental budget includes funding for the continued operation of HCA's current legacy systems for the entire 2003-2005 Biennium, approximately \$2.4 million. HCA and the Department of Personnel have reached agreement for the ongoing operations and support of the Public Employees Benefits Board (PEBB) system.

This project was originally assessed as a Level 2 project, requiring staff oversight. It was raised to Level 3, requiring ISB oversight, at the February 2003 ISB meeting.

**Background Information**

**Description:**

The Health Care Authority (HCA) received ISB approval and legislative funding to replace its two separate systems that support the Public Employee Benefit Board (PEBB) and Basic Health (BH) insurance lines of business with a single vendor-supplied system. The PEBB system was developed and is operated and maintained by the Department of Personnel (DOP); the BH system was developed and is operated and maintained by HCA staff. The goal of this project is to provide a single health insurance system to support both PEBB and Basic Health insurance lines of business, provide technology to improve the use of information, and reduce the overall cost of processing.

The new insurance system was expected to improve customer service by providing more accurate and timely resolution to customer inquiries, and by improving business processes and workflows. The new system would give customers and providers the ability to perform several functions over the Internet such as: applying for insurance; updating personal information; paying premiums; and checking eligibility. It would also position the agency to comply with the federal Health Insurance Portability and Accountability Act (HIPAA) of 1996.

In addition to the intangible benefits of improved customer service, this initiative was anticipated to provide over \$1.5 million in annual benefits, primarily from reduction in operational costs. The project had a five-year payback period.

The contract was awarded to Healthaxis, Ltd. for \$3.036 million and work began June 3, 2002. KPMG had been engaged as the external Quality Assurance (QA) vendor. KPMG has recently been replaced by Case Associates as the QA vendor.

The major project phases were:

- Phase I – Requirements definition, system architecture selection.
- Phase II – Detailed application design requirements, data migration, development, test.
- Phase III – Acceptance testing, training, implementation.

Although not technically a phase of the development portion of the project, a parallel activity is the decommissioning of the insurance functions of the PEBB system at DOP.

**Technology:** The new system would make use of Sun servers running UNIX and Oracle database products.

**Budget:** The budget is \$5.14 million for the entire project, including decommissioning. The project is fixed-price, deliverables-based. Of this amount, \$4.4 million is for purchasing, tailoring, implementing, and training for the new system; \$975,000 is for the system decommissioning at DOP. The original estimated project budget was \$5.23 million (including \$3 million for contingency). The budget has increased \$150,000 to account for increased staffing costs resulting from the delayed October implementation date. This increased the project budget to \$5.38 million. HCA requested \$4.99 million; the legislature approved \$3.64 million. The difference is to be funded from operational savings after the application is in production. Further delay costs have not yet been included. The system hardware and operating system software have been received and installed at DIS.